

ALERT

BENEFIT LEGISLATION

Volume II, Number 1

Legislative Provisions Affecting CalSTRS Benefits as of January 22, 2002

Each year, legislation is introduced that would, if enacted, improve benefits paid to some CalSTRS members who retire in the future. If you are considering retiring soon, you might be interested to know what bills of this type are being considered this year. The *Benefit Legislation Alert* has been developed by CalSTRS to raise member awareness of legislative provisions affecting CalSTRS benefits. Since all legislative proposals are subject to change during the legislative year, please see the box on page two for informational resources to help you keep current on the latest benefit provisions.

Benefit Legislation Alert

summarizes only the benefit-increasing provisions that apply to CalSTRS members retiring in the future. Some benefit-increasing proposals that affect CalSTRS members, but are not dependent on when a member retires, have been introduced in the state Legislature. However, those provisions are not included here.

Generally, when legislation becomes law, unless the bill states otherwise, the benefits will become effective on the next January 1 and apply to members who retire on or after the bill's effective date.

Some laws passed in 2000 increasing benefits to future retired CalSTRS members will only affect members retiring after 2001. Summaries of those provisions are included here.

Governor's Budget Proposal for CalSTRS

Governor Gray Davis released his proposed fiscal year 2002-03 budget on January 10. With the state facing a projected \$12 billion shortfall, the Governor is seeking ways to save General Fund dollars. One cost-saving proposal is to defer the state's General Fund contributions to CalSTRS for a short period with the funds being repaid over a 30-year period. Please note these important points regarding this proposal:

Impacts on Members

There will be NO negative impact on any member's benefit allowance. The Teachers' Retirement Law guarantees the CalSTRS retirement and disability allowances.

There will be NO negative impact on CalSTRS programs. CalSTRS will be fully reimbursed for the deferred contributions and the state will pay interest on those contributions. The interest amount will be equal to the assumed actuarial rate of return, currently 8 percent, on the amount repaid to CalSTRS.

In addition to the state reimbursing CalSTRS for the deferred contributions, the state will provide members an increased benefit as yet to be determined, which will also be paid for by the state.

Legislative Action Required

Details on the amount of state contributions to be deferred and the type of benefit increase to be provided depend on the legislative process. The Governor's Budget Summary does, however, tentatively propose a new benefit—an increase in contributions to each member's Defined Benefit Supplement account for a specific number of years.



CalSTRS staff are working closely with teachers' organizations to ensure whatever action is taken with regards to a new benefit best meets the needs of CalSTRS and the members.

Amount to be Deferred

The General Fund contributions to CalSTRS would be postponed for 27 months, starting April 1, 2002, and going through June 30, 2004. This will save the state approximately \$948 million over this period.

The state makes contributions to the Defined Benefit Program and the purchasing power program, based on a percentage of the previous year's payroll. For this fiscal year, the total contribution is approximately \$900 million. Only about half of this annual amount (the amount that would be credited to the DB Program) is targeted for deferment.

Enacted Legislation Taking Effect in the Future

AB 2456 (Wright) Chapter 897, Statutes of 2000

Beginning April 1, 2002, a member retiring for service after that date and before 2011 and after age 60 can elect to receive a portion of his or her CalSTRS retirement benefit as a lump sum in exchange for a lower monthly allowance. The lump-sum amount that will be available to members is limited and is based on the monthly allowance payable at retirement. The amount of the monthly allowance reduction cannot exceed 15 percent.

AB 2700 (Lempert), Chapter 1021, Statutes of 2000

Beginning July 1, 2002, all compensation for creditable service performed on and after that date will be creditable to CalSTRS. This includes compensation for summer school, intersession, overtime, allowances and bonuses. Compensation that will now be creditable will be credited to the Defined Benefit Program as additional credited service, up to one year. Member and employer contributions for more than one year of service in any school year will be credited to the member's Defined Benefit Supplement account.

SB 1435 (Johnston), Chapter 1032, Statutes of 2000

CalSTRS pays the Medicare Part A premium for members who are not eligible for premium-free Medicare Part A on their own and who retire through December 31, 2005. Eligibility for this benefit is limited to members who (1) retired from districts that have conducted or are conducting the Medicare election by the time the member retires, and, (2) if the member was under age 58 at the time of election, had elected to be covered by Medicare.

Keep Current on Legislative Changes for Informed Decisions

While CalSTRS makes every effort to keep its members informed about changes in its benefit structure, it cannot safely predict what the Legislature and Governor may do that might be of interest to you.

For this reason, you should keep yourself informed about possible benefit changes by consulting the CalSTRS website (www.calstrs.ca.gov) or the CalSTRS Public Service Office (800-228-5453), CalSTRS retirement counselors, your union representative (if applicable), your legislative representative and any other source that you believe would be helpful before you make any final decision about retirement.

You are ultimately responsible for any decision you make in regard to your CalSTRS benefit.

